HAMBRO CANADA LIMITED

1974 ANNUAL REPORT

HAMBRO CANADA LIMITED

BOARD OF DIRECTORS

E. R. E. Carter*
P. C. Finlay, Q.C.
C. E. A. Hambro
R. N. Hambro
P. D. Hill-Wood*
F. H. McNeil*†
K. A. Roberts*†
H. F. Teney, Q.C.
J. B. L. Thomas
J. L. Toole†
R. A. Wheeler
F. van de Water

*Member of Executive Committee
†Member of Audit Committee

OFFICERS

C. E. A. Hambro
Chairman of the Board

K. A. Roberts
Deputy Chairman of the Board

E. R. E. Carter
President and Chief Executive Officer

H. F. Teney, Q.C.
Vice-President (*Corporate Affairs*)

J. B. L. Thomas
Vice-President (*Financial Services*)

F. van de Water
Vice-President
Finance and Group Controller

R. F. Allen
Vice-President (*Corporate Development*)

P. C. Finlay, Q.C.
Vice-President

J. W. Lay
Secretary

C. S. Dell
Assistant Group Controller

HEAD OFFICE

Suite 1104, Royal Trust Tower,
Toronto-Dominion Centre,
Toronto M5K 1H6

HAMBRO CANADA LIMITED

TO THE SHAREHOLDERS

1974 was an eventful year which confounded the majority of economic forecasters. Interest rates, which reached levels unprecedented in modern times, and double-digit inflation caused many businesses to cut back on their expansion programmes and consumers to reduce spending levels.

As this climate developed, we believed it was essential to increase HMC's asset base and cash flow. This was accomplished through the acquisition of the outstanding shares of Peel-Elder Limited and the subsequent merger of HMC with Peel-Elder.

The Consolidated Statement of Operations shows a loss for the year of $3,980,000 (56¢ per share). This resulted primarily from: (1) the higher level of interest rates which prevailed throughout the year; (2) the fact that the greater part of Peel-Elder's earnings occurred during the first six months of 1974, when HMC owned less than 50% of this company — the post-acquisition contribution in 1974 was therefore minimal; furthermore, due to the need to comply with the requirements of the Securities and Exchange Commission regarding the offer for the outstanding shares of Peel-Elder Limited, which was made in June, certain corporate re-organizations which would have reduced considerably HMC's expenses in 1974 could not be effected until December; (3) rapid deterioration in equity markets which resulted in realized losses on certain positions and the need to reduce the carrying value of others at year end.

Interest rates have now declined considerably, and the amalgamation with Peel-Elder Limited is in place. Mr. Frank van de Water was elected a Director on December 5, 1974. A chart of the reorganized HMC group is shown overleaf.

Your company's real estate operations had a successful year in a difficult environment, with 1974 operating profits before general and administration expenses (a substantial amount of which relates to the merger with HMC) and taxes increasing by 9% to approximately $5 million. Our properties include a spread of income producing investments with excellent growth potential as well as a valuable land bank for future development.

Profits of Ontario Trust Company declined 31% to $513,000 in line with the trend of the industry, reflecting higher rates paid on demand deposits, a change in the mix of deposits to higher interest cost accounts and increased salary and overhead costs. However, the composition and maturity of balance sheet items have been substantially restructured, and this together with administrative and costs savings already effected should result in improved margins. Ontario Trust is well poised for the future development with an asset base now in excess of $217 million.

Earnings of Foodex Systems Limited for 1974, including a materially increased contribution from Gibraltar Pari-Mutuel, Inc., were $1,563,000 by comparison with $1,806,000 in 1973. Management deliberately curtailed the expansion programme because of uncertain economic conditions and at year end 70 PONDEROSA units were in operation with 15 more scheduled to open by the end of 1975. This compares with an originally planned level of 75 units by the end of 1974. Substantial savings in administrative and operating costs have been effected and in view of the success of the establishment of the PONDEROSA concept across Canada, expansion will be resumed as economic conditions improve.

Because of the deteriorating outlook during 1974, our venture capital and securities trading operations were reduced but will be reactivated as an improvement in the economic outlook becomes apparent. In the meantime we plan to broaden our corporate finance and advisory activities.

Despite disappointing results for 1974, HMC is now in a considerably stronger position than it was a year ago. Management throughout the HMC Group has been strengthened and together with an increased asset base and cash flow, HMC is now well placed to take advantage of opportunities as they develop. We are confident that 1975 will show a significant improvement in profitability.

Hopefully, the economy will not be over-stimulated by excessive reflationary measures and levels of government spending to the extent that high interest rates and inflation return with greater force; among other problems, this would only serve to curb world trade and lead to renewed nationalism, neither trend being beneficial to Canada's essentially open economy. We are also hopeful that the Foreign Investment Review Act will operate in a manner which does not discourage a beneficial inflow of capital and resources to Canada.

On behalf of the Board of Directors

[illegible] — *Chairman*

K A Roberts — *Deputy Chairman*

E R E Carter — *President and Chief Executive Officer*

April 14, 1975

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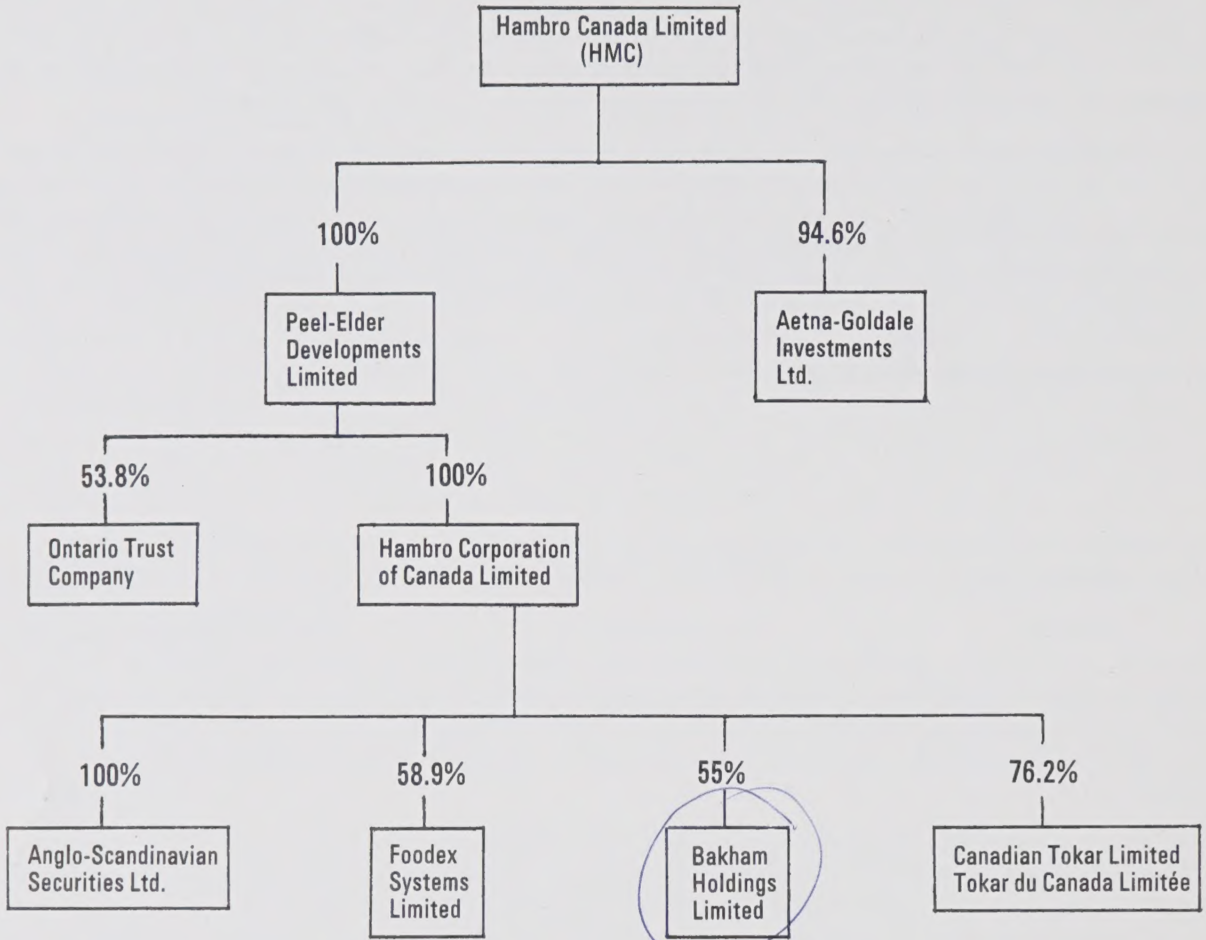
British parent ?? Erskine Carter at



As of April 9, 1975

REVIEW OF GROUP HOLDINGS

PEEL-ELDER DEVELOPMENTS LIMITED

Real estate operations are now being carried out by Peel-Elder Developments Limited.

Despite a significant slowdown in general housing sales, Peel Elder's earnings from housing, apartment and shopping centre operations (before interest and dividend income, and before general and administrative expenses and taxes) increased by 9% to $5,086,518; net profit after taxes for 1974 at $1,707,107 came within 25% of the record profit set by Peel-Elder in 1973. These results include the substantial additional expenses which were absorbed as a result of the corporate reorganization with Hambro Canada Limited, the high level of interest rates which prevailed throughout 1974, extraordinary expenses in excess of $300,000 for preventive maintenance and repairs, and the loss in the building materials subsidiaries.

FINANCIAL HIGHLIGHTS

	1974	1973
Revenues		
Sales of Houses and Land	$ 7,822,004	$ 5,457,996
Apartment Operations	8,149,022	4,976,515
Shopping Centre Operations	4,326,023	4,092,787
	20,297,049	14,527,298
Profit on Operations		
Houses and Land	1,698,174	1,600,260
Apartments	755,071	588,994
Shopping Centres	2,633,273	2,482,672
	5,086,518	4,671,926
Building Materials Profit (Loss)	(122,134)	233,192
	4,964,384	4,905,118
Interest, Discounts and Dividends	511,611	372,413
	5,475,995	5,277,531
General and Administrative Expenses	1,664,888	631,037
Provision for Income Taxes	2,104,000	2,372,000
Net Profit	1,707,107	2,274,494

The assets now include 3,834 apartment units in Metropolitan Toronto and Brampton as well as 1,013,000 square feet of rentable area in three modern regional shopping centres in Toronto and Brampton. A high level of occupancy prevailed in the apartments although the profits were affected by the rapid escalation of operating and maintenance costs. The shopping centres showed an increase in operating profit but increased revenue was largely offset by higher operating costs. The building material subsidiaries were affected by an unprecedented decline in lumber prices followed by the Federal Government's reduction in the sales tax by 6%. The result was a significant inventory write down which caused a net loss.

The residential development at Peel Village Highlands in Cambridge, Ontario continued with the completion of 57 homes started in 1973 and 137 new starts. At year end 113 homes were available for sale. These townhouses are priced within range of the average wage earner and qualify for the Federal Grant to new home buyers and the recently announced Ontario assistance to first home owners in Ontario. There are few comparable priced homes in the vicinity. One of the park sites was developed and recreational equipment was supplied for the playground. Considerable progress was made in landscaping and tree planting. During 1975 a commercial building will be erected to furnish convenience shopping. The subdivision is located in an area which is known for its well balanced mix of industry and growth in housing sales should follow further industrial development during 1975.

In North York, on the site of the former Forest Hills Golf Course, the eighty-nine homes started in 1973 were completed and sold early in 1974. As part of the overall community concept, a recreation centre with a large indoor swimming pool, exercise facilities, squash courts and tennis courts was opened in November. The recreation centre contributes to housing sales and the leasing of apartment units. A 259-suite apartment highrise building was completed and leased quickly.

Following the completion of the first block of townhouses, a second block comprising 95 homes was started and was approximately half finished at the year end. These homes and their lots are slightly larger than those in the previous block. This development will be completed by July 1975. Sufficient land remains to permit the construction of four more high rise towers or townhouse developments in a prime area immediately adjacent to a large new conservation area.

At Graydon Hall, in the Don Mills area of Toronto, construction started on a luxury centrally air-conditioned condominium high rise tower of twenty-five stories on a height of land overlooking the city. When completed there will be 197 spacious three bedroom suites with each suite having a balcony and facing two directions because of the building's cruciform shape. Model suites will be ready by October with the lower floors completed by the end of 1975.

Industrial and office space has expanded very quickly in the Don Mills area and these condominium apartment homes should be easily marketed.

In Brampton, virtually no new rental accommodation was constructed in 1974 as the City was preparing its overall plan for the eventual development of its now greatly expanded territory. Consequently, we were not successful in obtaining any building permits, despite the fact that proposals submitted were for the development of serviced land and classified as "in-fill" in the long-range plan. Early in 1975, we obtained Provincial and Regional approval to construct two 167 apartment high rise buildings under the Provincial Accelerated Housing Action Program. Under this Program, we will make available a number of apartments for government supported tenants in exchange for low interest, long-term mortage loans. Government involvement in apartment housing must increase as developers find it impossible to justify the construction of rental accommodation based on existing rates of return. Unfortunately, municipalities have also become reluctant to allow the development of single family homes without a complementary growth in commercial and industrial assessment. Consequently, a housing shortage may well occur before sufficient constructive action is taken by the many levels of government now involved in granting building permits in Ontario.

Late in 1974 land was purchased in the former town of Tuxedo in Winnipeg, Manitoba. The property is within twenty minutes of downtown Winnipeg in a first class neighbourhood and comprises 63 single family residential lots and almost 41 acres zoned for multiple density residential. A large section of the registered plan of the subdivision will have servicing completed by the City and development of the multiple area will commence by late summer.

The expansion of the Brampton, Albion and Danforth shopping centres remains under study. Considerable planning is required with ever changing construction costs, ratepayer opposition and prolonged discussions with various regulatory bodies. It is hoped that some favourable development will be announced this year. Shopping centre management has been strengthened and retail sales have shown encouraging gains.

Although the Company's land bank is not extensive it is extremely valuable, being located in two places in North York and in Toronto, Brampton and Cambridge. With the cooperation of the municipal, regional, provincial and federal authorities there is sufficient land for a ten-year program of well-planned and controlled development.

ONTARIO TRUST COMPANY

Ontario Trust is engaged in accepting deposits from the public and in mortgage lending as well as providing a variety of trust, consumer lending and real estate brokerage services in the Province of Ontario.

(Reference is made to the Financial Statements, Appendix A and Note E thereto as to HMC's holding in Ontario Trust and its share of Ontario Trust's 1974 net income).

Financial Highlights

	1974	1973
Total Assets	$217,678,000	$181,247,000
Total Deposits	204,491,000	169,609,000
Net Operating Profit for the Year	513,000	747,000
Net profit for the Year	513,000	747,000
Per Share	34c	50c
Weighted average number of shares outstanding	1,505,195	1,505,195

Excerpts from the 1974 Annual Report

"1974 has been another year of expansion for your Company with total assets increasing by $36 million or 20% and exceeding $217 million by the end of the year. The mortgage portfolio increased by 20% to $168 million, approximately 97% of which matures within a five year period. In 1974 the Company added to its holdings of preferred shares of high grade utilities which, for the most part, accounts for the increase of $4.3 million in stocks during the year. These issues, with their retractable features or mandatory purchase funds, fit well into the overall investment philosophy of the Company. Total deposits increased from $169 million to $204 million. Savings and chequing deposits increased only marginally during the year and it should be noted that a trend developed in 1974 whereby balances in low interest rate deposit and chequing accounts were reducing while balances in high interest rate accounts were increasing resulting in increased borrowing costs.

Earnings for the year amounted to $513,000 or 34¢ per share compared to $747,000 or 50¢ per share for the previous year and were adversely affected by higher interest rates on saving deposits and higher prevailing salary costs. In these times of uncertain economic conditions the Company is endeavouring to reduce expenses while continuing its program of maintaining a competitive salary program and maintaining its high level of service to our clients throughout the branch system. As a measurement of the success of the Company's past efforts to reduce costs while maintaining services, the ratio of personnel to each million dollars of deposits was reduced from 1.34 persons in 1971 to .77 persons at the end of 1974. Revisions to the Income Tax Act in November, 1974 required the Company to provide for a federal income tax surcharge of 10% computed from May 1, 1974. The effect of the surtax is a reduction of 1.2¢ in per share earnings for 1974. Additional non-taxable preferred dividends have contributed to a reduction in the effective rate of income tax from 48.6% in 1973 to 42.0% in 1974 after inclusion of the surtax.

A recessionary trend is now evident, the extent of which has not been encountered since the depression of the 1930's. While your management is confident that the Governments and people of the Western World have the ability to ultimately reverse this trend, we have established a policy of maintaining a position of high liquidity. It should be noted that the level of cash, bank deposit receipts and marketable securities has been increased from $37 million at the end of 1973 to $45 million at the end of 1974. At the same time unfunded mortgage commitments which totalled $25 million at the end of 1973 were reduced to $10 million at the end of 1974.

At the last annual meeting, the shareholders approved the creation of preferred shares. It was the intention of the Company to issue a portion of these shares in 1974. However, rapidly rising interest rates caused unfavourable market conditions and the issue was postponed. All costs related to the creation of these shares, including the preparation of a prospectus, were absorbed in 1974. Recent changes in the Loan and Trust Corporations Act will allow the issuance of subordinated notes under certain conditions. We view these changes positively as it allows your Company more flexibility to increase its capital and borrowing base.

During 1973 a second office was opened in the east end of Windsor, Ontario. In the latter part of 1974 it became apparent that this branch could not meet the expected rate of growth and therefore, with reluctance, it was closed. All accounts were transferred to the main Windsor branch and the reduction in deposit totals has been minimal. In the latter part of 1974, the results of the Company's Real Estate Department were reviewed and the services of this department being offered in Northern Ontario have been reduced to those areas which the Company considers to have profit potential.

Looking to the future, your Company will continue to improve its existing services and will seek ways to expand into new services which will enhance the profit of the organization. While Collateral and Consumer Loan activities and the Estate, Trust and Agency business continue to be a relatively small portion of the total business of Ontario Trust, we are pleased with the expansion in these areas. We believe that the Company is entering 1975 in an excellent position to take advantage of economic opportunities as they present themselves."

FOODEX SYSTEMS LIMITED

Foodex is engaged principally in food services, its major operation being the PONDEROSA STEAK HOUSE. Through a 62.1% owned subsidiary it controls three racetracks in the United States.

(Reference is made to the Financial Statements, Appendix A and Note D thereto as to HMC's holding in Foodex and its share of Foodex' 1974 net income).

Financial Highlights

	1974	Per Share	1973	Per Share
Consolidated Gross Revenue				
Canadian operations	$30,511,595		$20,052,518	
Discontinued operations	—		10,671,938	
	30,511,595		30,724,456	
Gibraltar Pari-Mutuel, Inc.	25,406,752		20,665,770	
	$55,918,347		$51,390,226	
Income before extraordinary items and after minority interest				
Canadian Operations	823,338	.18	1,178,523	.28
Gibraltar Pari-Mutuel, Inc.	711,972	.17	610,821	.14
	1,535,310	.35	1,789,344	.42
Net Income after extraordinary items				
Canadian Operations	823,338	.18	1,195,426	.28
Gibraltar Pari-Mutuel, Inc.	739,292	.17	610,821	.14
	1,562,630	.35	1,806,247	.42
Cash flow from operations				
Canadian Operations	3,044,509	.69	3,201,560	.74
Gibraltar Pari-Mutuel, Inc.	2,422,953	.54	2,132,201	.50
	5,467,462	1.23	5,333,761	1.24
Shares outstanding (weighted average)	4,448,766		4,305,638	

Excerpts from the 1974 Annual Report

"During 1974 we were faced with steadily worsening economic conditions and during the first half of the year shortages of materials and labour, as well as adverse weather conditions and strikes, caused postponements in scheduled openings of PONDEROSA units. At the same time the cost of nearly every product making up our menu was subject to spiralling increases. Our decision was to make our menu price increases modest and to absorb a substantial part of our cost increases.

In view of the uncertain economic conditions which developed, management decided to curtail temporarily the program of expansion which had been planned. In the Directors' Report for 1973 it was stated that 50 PONDEROSA units were open and 25 more units would be opened during 1974. In fact, because of the decision to slow down expansion, 70 units were open at year end. In 1975 15 units will open. Of these, 6 have opened and the remaining 9 should be operating by September 30. Our base of operations was expanded from that of a regional chain to one of national stature, with PONDEROSAS located from Prince Edward Island to Alberta. Also, during 1974 we constructed a portion control meat plant and distribution centre at Bramalea, Ontario. This commenced operations in February 1975 and should be a significant profit centre.

As soon as economic conditions improve our expansion program will be stepped up to its planned rate. In the meantime, considerable economies have been effected in operating and administrative costs which will ensure a continuing satisfactory level of profitability despite the currently uncertain outlook for the economy in 1975.

Earnings from Canadian operations were $823,338 for 1974, by comparison with $1,195,426 for 1973.

Earnings from Gibraltar Pari-Mutuel, Inc., a 62.1% owned U.S. subsidiary, showed a significant improvement during 1974 increasing by $130,944 to $1,119,717, principally as a result of a larger number of racing days and improved attendance and wagering at the tracks. Equally good results are expected for 1975.

As a result of this performance in a difficult year, your directors are confident of an increase in profitability in the uncertain economic environment which is likely to prevail for at least the first six months of 1975."

CANADIAN TOKAR LIMITED — TOKAR DU CANADA LIMITÉE
AETNA-GOLDALE INVESTMENTS LIMITED

A capital reduction was approved by Tokar shareholders in August 1974 resulting in a payment of $6.3 million. HMC's share of this payment amounted to $4.8 million. Net assets now aggregate $1.6 million. The issued share capital of Tokar was consolidated on a one for two basis and the name was changed to Canadian Tokar Limited — Tokar du Canada Limitée.

In Aetna-Goldale, a cash dividend of $1.4 million was paid in August 1974, and a further $1.2 million will be paid by way of a capital reduction during the first half of 1975. HMC's share of these distributions is $2.4 million. Aetna-Goldale's net assets will thus aggregate $2.3 million.

The economic climate during 1974 was not considered suitable for major acquisitions by Canadian Tokar or Aetna-Goldale but each is in a liquid position and plans to seek an appropriate investment as conditions improve.

BAKHAM HOLDINGS LTD.

(Reference is made to the Financial Statements, Appendix A and Note G thereto as to HMC's holding in Bakham and its share of Bakham's 1974 net income).

The net assets of Bakham now amount to $3.5 million, largely comprising the fuel oil and concrete supply business, whose facilities are being modernised, and valuable industrial real estate holdings in Winnipeg.

AUDITORS' REPORT

To the Shareholders of

HAMBRO CANADA LIMITED:

We have examined the consolidated balance sheet and consolidated summary of investments of Hambro Canada Limited as at December 31, 1974 and the consolidated statements of operations, deficit and changes in financial position for the year then ended. For Hambro Canada Limited, and for those consolidated subsidiaries and companies accounted for by the equity method of which we are the auditors, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of all other consolidated subsidiaries and companies accounted for by the equity method.

As set out in the financial statements, the carrying value of certain investments exceeded their quoted market values at December 31, 1974. While management has indicated, in note B to the consolidated summary of investments, its opinion that there has been no long-term impairment in the value of any of these investments and that the aggregate value thereof is not less than the aggregate amount at which they are carried, the ultimate value of the investments is dependent upon future developments which cannot be determined at this time. In addition, as described in note D to the consolidated summary of investments, certain legal actions have been brought against Foodex Systems Limited (a 58.9% owned subsidiary), the outcome of which is presently indeterminable.

In our opinion, subject to the effect, if any, on the consolidated financial statements of the ultimate resolution of the uncertainties referred to in the preceding paragraph, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
March 6, 1975 (except as to note D to the consolidated summary of investments which is as at April 15, 1975).

CLARKSON, GORDON & CO.
Chartered Accountants

HAMBRO CANADA LIMITED
(formerly Hambro Canada (1972) Limited)
(Incorporated under the laws of Ontario)
AND SUBSIDIARY COMPANIES

ASSETS

	1974	1973
Cash and bank deposit receipts	$ 715,000	$ 1,084,000
Trading securities, at market value (on the basis of the lower of average cost and market) (note 6)	2,701,000	9,626,000
Receivables:		
Mortgages, loans and other receivables (note 4)	9,361,000	4,883,000
Due under employee share purchase plans (note 5)	1,069,000	1,497,000
	10,430,000	6,380,000
Investments (see Consolidated Summary of Investments — Appendix A) (quoted market value — $11,032,000; 1973 — $44,659,000) (note 6)	36,740,000	54,198,000
Real estate:		
Inventories (note 6) —		
Land and housing	29,485,000	
Building materials	1,378,000	
	30,863,000	
Rental properties, at cost less accumulated depreciation of $3,976,000 (note 6)	90,740,000	
	121,603,000	
Fixed assets, at cost, less accumulated depreciation of $610,000	841,000	
Other assets	757,000	65,000
	$173,787,000	$71,353,000

(See accompanying notes to consolidated financial statements)

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1974
(with comparative figures at December 31, 1973)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1974	1973
Liabilities:		
Bank demand loans (note 6)	$ 19,167,000	$20,672,000
Accounts payable and accrued liabilities	4,826,000	554,000
Income taxes payable (note 9)	244,000	84,000
Tenants' deposits and provision for land servicing and house construction costs	1,273,000	
Advance from associated company	908,000	
Bank term loans (note 6)	50,000,000	15,000,000
Mortgages and notes payable (note 6)	58,626,000	
Deferred income taxes	8,299,000	
	143,343,000	36,310,000
Minority interest (note 7)	2,891,000	5,085,000
Shareholders' equity (note 3)		
Capital	30,892,000	29,064,000
Contributed surplus	519,000	519,000
Retained earnings (deficit)	(3,858,000)	375,000
	27,553,000	29,958,000
	$173,787,000	$71,353,000

On behalf of the Board:

K A Roberts Director

E R E Carter Director

(See accompanying notes to consolidated financial statements)

HAMBRO CANADA LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1974

(with comparative figures for 1973)
(note 2(a))

	1974	1973
Real estate activities:		
House and land sales	$ 7,822,000	
Rental property revenue	12,475,000	
Building material sales	7,192,000	
	27,489,000	
Less operating costs —		
Cost of house and land sales	6,131,000	
Operating costs of rental properties	9,105,000	
Cost of building materials sold	6,842,000	
	22,078,000	
Gross earnings from real estate activities	5,411,000	
Financial activities:		
Equity in earnings of —		
Unconsolidated subsidiaries	1,193,000	$ 1,457,000
Other associated companies	92,000	1,731,000
Dividend and interest income	481,000	757,000
Loss on security trading and provision to reduce carrying value of trading securities to market	(1,553,000)	(305,000)
Other income	289,000	287,000
	502,000	3,927,000
Earnings before the undernoted	5,913,000	3,927,000
General and administrative expenses	2,468,000	678,000
Interest	4,313,000	2,805,000
Minority interest	933,000	141,000
	7,714,000	3,624,000
Earnings (loss) before income taxes and extraordinary items	(1,801,000)	303,000
Income taxes (note 9):		
Current	910,000	21,000
Deferred	1,897,000	(133,000)
	2,807,000	(112,000)
Earnings (loss) before extraordinary items	(4,608,000)	415,000
Extraordinary items (note 12)	628,000	106,000
Earnings (loss) for the year	$ (3,980,000)	$ 521,000
Earnings (loss) per common and preference share (note 8):		
Earnings (loss) before extraordinary items	$ (0.65)	$ 0.06
Earnings (loss) for the year	$ (0.56)	$ 0.07

(See accompanying notes to consolidated financial statements)

HAMBRO CANADA LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1974

(with comparative figures for 1973)

	1974	1973
Retained earnings, beginning of year	$ 375,000	$ 3,673,000
Earnings (loss) for the year	(3,980,000)	521,000
	(3,605,000)	4,194,000
Deduct (add):		
Realization of excess of ascribed fair value of net assets over book value at September 30, 1972 (note 3(c))	(120,000)	(1,034,000)
Costs relating to the amalgamation with Peel-Elder Limited	373,000	
Amount applied on the cancellation of shares of the Company		4,853,000
	253,000	3,819,000
Retained earnings (deficit), end of year	$(3,858,000)	$ 375,000

(See accompanying notes to consolidated financial statements)

HAMBRO CANADA LIMITED
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1974

(with comparative figures for 1973)

	1974	1973
Funds were provided from:		
Bank term loans, mortgages and notes payable (excluding loan to finance purchase of Peel-Elder)	$10,591,000	
Increase (decrease) in other liabilities	445,000	$(1,644,000)
Decrease (increase) in receivables	7,212,000	(1,846,000)
Consideration attributed to increase in capital		1,080,000
Sale of shares of consolidated subsidiaries under employee share purchase plans		597,000
Sale of assets and investment in associated company		7,300,000
Total funds provided	$18,248,000	$ 5,487,000
Funds were applied to:		
Operations —		
Loss (earnings) before extraordinary items	$ 4,608,000	$ (415,000)
Add (deduct) credits (charges) which do not represent flows of funds:		
Excess of equity in net earnings of associated and unconsolidated subsidiary companies over dividends received ($40,000 in 1974)	1,245,000	3,188,000
Depreciation and amortization	(635,000)	
Minority interest net of dividends paid of $132,000 (1973 — $136,000)	(801,000)	(7,000)
Deferred income taxes	(1,897,000)	133,000
Funds applied to operations	2,520,000	2,899,000
Acquisition of Peel-Elder Limited —		
Net assets acquired (note 2(a))	42,958,000	
Deduct:		
Carrying value of investment at date of acquisition	(19,632,000)	
Bank term loan incurred to finance the acquisition	(21,378,000)	
Preference shares issued to former minority shareholders	(1,948,000)	
	—	
Decrease (increase) in bank demand loans	13,267,000	(8,806,000)
Increase in real estate assets	6,251,000	
Reduction (increase) in minority interest	2,995,000	(1,974,000)
Increase in investments	334,000	9,321,000
Net cost of acquiring outstanding interest in Company's shares		2,243,000
Other (net)	175,000	590,000
	23,022,000	1,374,000
Total funds applied	$25,542,000	$ 4,273,000
Excess of funds applied over provided (provided over applied)	$ 7,294,000	$(1,214,000)
Cash, bank deposit receipts and trading securities at beginning of year	10,710,000	9,496,000
Cash, bank deposit receipts and trading securities at end of year	$ 3,416,000	$10,710,000

(See accompanying notes to consolidated financial statements)

HAMBRO CANADA LIMITED

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1974

1. Accounting Policies —

The following is a summary of significant accounting policies followed in the preparation of these consolidated financial statements:

(a) Basis of consolidation —

The consolidated financial statements include the accounts of the Company and those subsidiaries whose activities are integrated with those of the Company. Integrated activities are considered to be those of a holding, investment or real estate nature. Other non-integrated subsidiaries are held as investments and accordingly are accounted for on the equity basis.

The significant consolidated subsidiaries and the Company's percentage ownership therein at December 31, 1974 are as follows:

	% owned
Peel Village Developments Co. Limited	100.0
Hambro Corporation of Canada Limited ("H.C.C.")	100.0
Anglo Scandinavian Securities Ltd.	100.0
Canadian Tokar Limited	76.2
Thalnen Securities Limited	100.0
Franklin Lumber Co. Limited	100.0
Kaufman Lumber Limited	100.0
Goldale Acceptance Limited	100.0
Aetna-Goldale Investments Limited	94.6

As explained in note 3(c) the exchange of shares with H.C.C. has been accounted for as an acquisition by H.C.C. of the net assets and business of the Company on the purchase basis of accounting. Other consolidated subsidiaries are also accounted for on the purchase basis of accounting except for Aetna-Goldale Investments Limited which is consolidated on the pooling of interest basis of accounting.

(b) Real Estate activities —

(i) Land and house sales are recorded at the date of transfer of title on receipt of the amount due on closing and, where applicable, assumption by the purchaser of a mortgage for the balance of the purchase price.

Land purchasers are required to pay no less than 15% of the purchase price on closing.

(ii) Condominium sales are recorded when the amount due on closing is received and the purchaser is entitled to occupancy and undertakes to assume a mortgage for the balance of the purchase price.

(iii) Income from commercial rental properties is recorded from date of occupancy. Income from residential rental properties is recorded from the date that the property reaches 75% occupancy. Interest, taxes and other carrying costs are capitalized until that date.

(iv) Land inventories are valued at original purchase price plus interest, realty taxes and servicing costs incurred to date, which is less than estimated market value. Interest and realty taxes of $1,190,000 were capitalized during the year.

Housing inventories are valued at cost plus accumulated interest and realty taxes which is lower than realizable market value. During the 1974 year, interest of $721,000 was capitalized against housing inventories under construction.

Building materials are valued at the lower of cost and realizable market value.

(v) Deferred income taxes —

For income tax purposes, certain expenses are claimed in excess of amounts charged in the financial statements. The resulting tax savings are set aside in the balance sheet as deferred income taxes to be credited to income in future years when expenses claimed for tax purposes are less than the related amounts charged in the financial statements.

(vi) Depreciation policy —

Rental properties:

Sinking fund method based on an estimated useful life of forty years which will write off the cost of the buildings in a series of equal annual instalments plus an interest factor of 5% compounded annually.

Apartment equipment:

10% or 15% straight-line method according to classification.

Other equipment:

20% or 30% reducing balance method according to classification.

Shopping centre fixtures:

4% to 35% according to classification.

(c) Investments in unconsolidated subsidiaries and associated companies —

The subsidiaries which are not consolidated are Foodex Systems Limited and Ontario Trust Company. The percentages of shares of these subsidiaries which were controlled at December 31, 1974 were 58.9% and 53.8% respectively (December 31, 1973 — 58.0% and 53.8% respectively).

These subsidiaries are accounted for on the equity basis. Under the equity basis of accounting, the investments were initially recorded in the consolidated balance sheet at cost with the carrying values increased to recognize the Company's share of their undistributed income subsequent to the dates of investment.

The investment in the associated company, Bakham Holdings Ltd., (in which the Company exercises significant influence with 50% of the voting shares) is also accounted for on the equity basis of accounting.

Any difference between the purchase price of an investment in an unconsolidated subsidiary or an associated company and the estimated fair value of the underlying net tangible assets is left unamortized in the carrying value of the investment unless it becomes apparent that the value of the related investment is impaired. In accordance with changes in generally accepted accounting principles, such differences arising after March 31, 1974 (to December 31, 1974 — nil) will be amortized over periods not exceeding 40 years.

(d) Trading securities —

The Company follows the policy of valuing trading securities at the lower of average cost and market, as determined by comparing the aggregate cost of the portfolio with its aggregate market value.

2. Share Acquisitions and Amalgamation:

(a) Peel-Elder Limited ("Peel-Elder") —

On June 20, 1974, the Company made an offer to purchase all of the issued and outstanding shares of Peel-Elder, other than the shares already controlled by the Company, at a price of $13.00 (Canadian funds) per share or, at the option of the holder, $13.25 (U.S. funds) per share. As a result of this offer, the Company acquired an additional 1,587,763 shares of Peel-Elder (95.52% owned at December 5, 1974) for a total consideration of $21,738,000, including fees and other costs related to the purchase, substantially all financed by a U.S. dollar bank loan.

On December 5, 1974, the former Hambro Canada Limited amalgamated with its then 95.52% owned subsidiary, Peel-Elder. The Amalgamated Corporation issued 6,903,867 common shares on conversion of the outstanding common shares of the former Hambro Canada Limited on a one-for-one basis. The outstanding shares of Peel-Elder not owned by Hambro (4.48%) were converted into 447,699 redeemable preference shares of the Amalgamated Corporation on a three-for-one basis. The shares in Peel-Elder held by the Company were cancelled.

The consolidated statement of operations for the year ended December 31, 1974 includes the operating results of Peel-Elder for that period, adjusted for the outside interest (50.1%) in such earnings for the six month period to June 30, 1974, the effective date of purchase by the Company of additional shares in Peel-Elder, as described above. The comparative statement of operations for the 1973 year is that of the predecessor corporation, Hambro Canada (1972) Limited.

The assets and liabilities of Peel-Elder have been consolidated on the purchase basis of accounting effective June 30, 1974 as follows:

Peel-Elder net assets at book value (June 30, 1974) —

Assets:		
Land and housing inventories	$ 18,760,000	
Rental properties, less depreciation	79,853,000	
Investments	371,000	
Other assets	15,514,000	$114,498,000
Liabilities		86,113,000
Net assets		28,385,000
Represented by:		
Capital	$ 19,311,000	
Retained earnings	9,074,000	
	$ 28,385,000	
Excess of ascribed value of net assets over book value, allocated to —		
Land and housing inventories	$ 5,172,000	
Rental properties	9,612,000	
Investments	(211,000)	14,573,000
Total ascribed value of Peel-Elder net assets		$ 42,958,000
Attributable to:		
Cost of Hambro interest in Peel-Elder		$ 41,010,000
Minority interest (149,233 shares at $13.05 per share subsequently converted on amalgamation into 447,699 preference shares of the Company)		1,948,000
		$ 42,958,000

(b) Purchase of additional shares of subsidiaries —

Additional shares of subsidiaries were purchased during the year as follows:

(i) Foodex Systems Limited ("Foodex") —

During the year, the Company purchased for cash 80,220 additional shares of Foodex at a cost of $334,000 thereby increasing its interest therein from 58.0% at December 31, 1973 to 59.9%. In addition, in 1974 Foodex issued a further 66,665 Treasury shares under its key employee share purchase plan thereby reducing the Company's interest to 58.9% at December 31, 1974.

Further information as to Foodex is set out in the accompanying Consolidated Summary of Investments and the notes thereto.

(ii) Canadian Tokar Limited —

During the year the company acquired for cash, 84,447 additional shares of Canadian Tokar Limited at a cost, net of the capital distribution described in note 7, of $54,000 thereby increasing the Company's interest in that subsidiary from 71.1% to 76.2%. The cash consideration paid approximated the share of net assets acquired.

3. Shareholders' Equity —

(a) The amount shown for capital of the Company is made up as follows:

Authorized:

525,000 non-voting, redeemable preference shares of no par value, ranking equally with common shareholders as to dividends and redeemable at $4.35 per share

10,000,000 common shares of no par value

Issued (see note 2(a)):	December 31, 1974	December 31, 1973
447,699 preference shares issued to minority interest in Peel-Elder on amalgamation at $4.35 per preference share	$ 1,948,000	
6,903,867 common shares issued to Hambro shareholders on conversion of Hambro shares on a one-for-one basis	$43,694,000	$43,694,000
Total legal paid-up capital	$45,642,000	$43,694,000
Less:		
Accounting adjustments required by principles of accounting for business combinations	14,750,000	14,630,000
	$30,892,000	$29,064,000

The accounting adjustments applied in reduction of the amount of the Company's paid-up capital are as follows:

The amount by which the legal paid-up capital of shares issued in 1969 for shares of the subsidiary, Aetna-Goldale Investments Limited, exceeded the value ascribed under "pooling of interest" basis of accounting -		$12,796,000
In respect of shares issued in 1972 in exchange for H.C.C. shares		
Excess of amount credited to paid-up capital on issue of shares for H.C.C. over book value of H.C.C. net assets - - - - -		6,551,000
Less excess of ascribed fair value of net assets of Canadian Goldale Corporation Limited over their book value at September 30, 1972 (note (c) below) - - - - - - - - - -	$ 3,541,000	
Less portion realized subsequent to September 30, 1972 (including $120,000 in the year ended December 31, 1974) - - -	1,377,000	2,164,000
		4,387,000
		17,183,000
Less amount applicable to shares cancelled by the Company in 1973		2,433,000
Net adjustments, December 31, 1974 - - - - - - - - - -		$14,750,000

(b) An option held by an officer of the Company to purchase 30,000 shares of the Company's authorized but unissued share capital at $12.00 per share expired on July 29, 1974 and was replaced by an option to purchase the same number of shares at $9.00 per share exercisable on or before January 31, 1978.

(c) As of September 30, 1972, Canadian Goldale Corporation Limited ("Canadian Goldale") (now Hambro Canada Limited) acquired all of the outstanding common shares of H.C.C. Since the above exchange transaction left the former common shareholders of H.C.C. with a majority of the shares of the Company, the exchange is treated on consolidation as an acquisition by H.C.C. on the purchase basis of accounting of the net assets and business of Canadian Goldale. The excess of the consideration ($3,541,000) over the then book value of Canadian Goldale's net tangible assets was ascribed to such net tangible assets.

The balance of the deficit account and the carrying value of capital are subject to compensating adjustments as the excess of the ascribed fair value of the net assets of the Company at September 30, 1972 over their book value at that date is realized in subsequent transactions. Of this excess, $120,000 was realized in 1974 ($1,034,000 in the year ended December 31, 1973) and is shown as a transfer from the carrying value of capital stock to deficit account in these financial statements.

4. Mortgages, Loans and Other Receivables —

At December 31, 1974 mortgage loans due from officers of the Company amounted to $93,000. During 1974 mortgage funds advanced to officers totalled $35,000.

5. Due under Employee Share Purchase Plans —

The following transactions have been effected under employee share purchase plans:

	December 31, 1974	December 31, 1973
Relating to shares of:		
The Company -	$ 900,000	$ 900,000
Canadian Tokar Limited - - - - - - - - - - - - - - - -	169,000	406,000
Aetna-Goldale Investments Limited - - - - - - - - - - - -		191,000
	$ 1,069,000	$ 1,497,000

(a) 100,000 shares of the Company were issued from treasury to a trustee on behalf of certain employees at $9.00 per share in 1973. The total consideration of $900,000 consisted of non-interest bearing notes of the trustee due on or before January 31, 1978.

(b) 125,000 shares of Canadian Tokar Limited and 125,000 shares of Aetna-Goldale Investments Limited were sold to key employees in 1973, all of whom are directors and/or senior officers of the Company, at amounts (Tokar — $406,000 or $3.25 per share; Aetna-Goldale — $191,000 or $1.53 per share) which resulted in neither profit nor loss to the Company. The total consideration of $597,000 consisted of non-interest bearing promissory notes of the purchasers due at various dates in 1975.

During 1974, the due dates of the non-interest bearing promissory notes relating to the shares of Canadian Tokar Limited were extended to January 31, 1978 and the 125,000 shares of Aetna-Goldale Investments Limited were repurchased by the Company at the original sale price to the employees, which price approximated market value at the date of the repurchase. As described in note 7, $237,000 due in respect of shares of Canadian Tokar Limited was received in 1974 as a result of a reduction in the paid-up capital of that company.

(c) Under the plans, the purchased shares are held by the trustees as collateral security for the advances and are released to employees as the related advances are repaid. The employees are individually liable for the amounts advanced to the trustees on their behalf; the obligation of the trustees to repay advances is limited to amounts received from employees and proceeds realized on any sale of shares held as collateral.

(d) At December 31, 1974, the quoted market value of the shares of Canadian Tokar and the Company held as collateral security by the trustees was $817,000 below the amount owing in respect thereof.

6. BANK LOANS, MORTGAGES AND NOTES PAYABLE —

	December 31, 1974	December 31, 1973
(a) Bank term loans (1974 - including $21,005,000 payable in U.S. funds)	$ 50,000,000	$ 15,000,000

The U.S. dollar portion ($21,005,000) of the bank term loans bears interest at 120% of the bank's prime lending rate in New York and the Canadian dollar portion bears interest at 1¼% above the bank's Canadian prime rate.

The bank demand loans and bank term loans are secured by debentures aggregating $80,000,000 supported by a specific mortgage on certain of the companies' real estate holdings and a floating charge on all their property and assets, by the pledging of substantially all of the Company's investments in shares of subsidiaries, associated companies and trading securities and by the guarantees of substantially all consolidated subsidiaries. In addition, certain subsidiaries have pledged their accounts receivable as collateral security against bank demand loans. The proceeds of sales of real estate, other than sales of housing units in the ordinary course of business, investments, long-term financing (other than such financing in normal real estate development operations) and public financing by the issue of securities are to be applied in permanent reduction of the $50,000,000 term loans.

(b) Mortgages and notes payable

Mortgages and notes payable are summarized as follows:

Mortgage loans —	
6¼% due 1996	$ 1,916,000
6½% due 1993	2,303,000
6¾% due 1991	1,945,000
7% due 1993	3,176,000
8% due 2000	7,511,000
8¾% due 1993 and 2001	9,947,000
9% due 1979	7,825,000
9¼% due 1978	3,377,000
Note payable —	
10% due 1978	4,903,000
Sundry other mortgages and notes repayable in varying amounts to the year 2000 at interest rates from 4% to 12¼%	15,723,000
	$ 58,626,000

(c) The aggregate amounts of principal payable on bank term loans, mortgages and notes in the next five years are as follows:

Bank term loans	Mortgages and notes payable
January 1, 1976 — \$ 5,000,000	1975 — \$3,899,000
January 1, 1977 — \$20,000,000	1976 — \$3,077,000
January 1, 1978 — \$ 5,000,000	1977 — \$1,185,000
January 1, 1979 — \$10,000,000	1978 — \$6,158,000
January 1, 1980 — \$10,000,000	1979 — \$2,051,000

7. Minority Interest —

The balances shown for minority interest are made up as follows:

	December 31, 1974	1973
5½% cumulative redeemable Series A preferred shares of H.C.C. of the par value of \$25 each	\$ 2,319,000	\$ 2,460,000
Minority interest in common shares of other consolidated subsidiaries	572,000	2,625,000
	\$ 2,891,000	\$ 5,085,000

The preferred shares of H.C.C. are redeemable at a premium of 4½% on or before February 1, 1976, 3½% thereafter to February 1, 1981, 2½% thereafter to February 1, 1986 and 1½% thereafter.

The decrease in minority interest in common shares of other consolidated subsidiaries arose primarily as a result of the reduction in paid-up capital of the consolidated subsidiary, Canadian Tokar Limited. Paid-up capital was reduced during the year from \$8,368,000 to \$2,090,000 resulting in a distribution of \$1,519,000 (\$1.90 per share) to the minority shareholders of Canadian Tokar Limited. Of this amount, \$237,000 was received by employees to whom Tokar shares had been sold under the employee stock purchase plan and was applied to reduce amounts owing under the plan.

8. Earnings (Loss) per Share —

The calculations of earnings (loss) per common and participating preference shares are based on the weighted average of the equivalent number of Company shares outstanding through the year 1974 — 7,127,717 shares (1973 — 7,216,994 shares).

The exercise of the outstanding stock option (see note 3(b)) would have no significant dilutive effect on earnings (loss) per share.

9. Income taxes —

(a) The Company has been assessed in respect of its taxable income for the years 1967 to 1971 inclusive. No material liabilities not previously provided for arose from the assessments.

(b) During the year, a subsidiary was advised that it was successful in its appeal against income tax assessments relating to certain capital gains realized in years prior to the effective date (September 30, 1972) of acquisition of the Company by H.C.C. The subsidiary had provided \$458,000 against the possibility that the appeal would not be successful.

As the above provision related to periods prior to the date of effective acquisition of the Company by H.C.C., the recovery of \$458,000 previously provided has been accounted for as an extraordinary gain in the accompanying financial statements.

(c) At December 31, 1974, the Company and certain subsidiaries had accumulated losses for income tax purposes of \$5,551,000. Such losses, which arose largely in 1973 and 1974 and expire mainly in 1978 and 1979, are available to carry forward for tax purposes to apply against such income as may arise, and would otherwise be taxable in future years within the limitations prescribed by tax legislation.

10. Supplementary Information —

Interest incurred on long-term indebtedness amounted to \$5,550,000 in 1974 (1973 — \$1,204,000).

11. Reclassification of 1973 Figures —

Certain 1973 comparative figures have been reclassified to conform with the presentation adopted in 1974.

12. Extraordinary Items —

Extraordinary items comprise the following:

	1974	1973
Reduction of taxes of certain subsidiaries resulting from carry-forward of prior years' losses	$ 170,000	$ 106,000
Recovery of prior year's income taxes provided as a result of a successful income tax appeal by a subsidiary company (see note 9(b))	458,000	
	$ 628,000	$ 106,000

13. Remuneration of Directors and Senior Officers —

The aggregate direct remuneration of directors and senior officers for the year ended December 31, 1974 was $478,000 (1973 — $318,000). The aggregate direct remuneration paid to such directors and senior officers by unconsolidated subsidiaries for the year ended December 31, 1974 was $13,000 (1973 — $5,000).

HAMBRO CANADA LIMITED
AND SUBSIDIARY COMPANIES

CONSOLIDATED SUMMARY OF INVESTMENTS
DECEMBER 31, 1974
(with comparative figures at December 31, 1973)

Unconsolidated subsidiaries and other associated companies, on equity basis (note C):

Foodex Systems Limited (note D) - - - - - - - - - - - - - - - - - - -

Ontario Trust Company (note E)- - - - - - - - - - - - - - - - - - -

Peel-Elder Limited (note F) -

Bakham Holdings Ltd. (note G) -

Other companies, at cost:

Sunningdale Oils Limited -

McIntyre Mines Limited -

NSI Marketing Limited (note C) -

Miscellaneous -

Total investments- -

5,125
150
256250
5125
778,750

(See accompanying notes to consolidated summary of investments)

1974			1973		
Percentage of shares controlled (note A)	Quoted market value (note B)	Carrying value	Percentage of shares controlled (note A)	Quoted market value (note B)	Carrying value
58.9%	$ 4,857,000	$17,182,000	58.0%	$16,065,000	$15,932,000
53.8%	1,982,000	9,507,000	53.8%	6,674,000	9,271,000
			49.6%	15,270,000	19,108,000
55.0%	1,255,000	1,255,000	55.0%	1,163,000	1,163,000
	8,094,000	27,944,000		39,172,000	45,474,000
3.8%	440,000	1,500,000	3.8%	1,147,000	1,500,000
3.1%	2,155,000	6,608,000	3.1%	3,818,000	6,608,000
9.2%	275,000	611,000	9.2%	517,000	611,000
	68,000	77,000		5,000	5,000
	2,938,000	8,796,000		5,487,000	8,724,000
	$11,032,000	$36,740,000		$44,659,000	$54,198,000

1,500,000
778,760
721,240

NOTES TO CONSOLIDATED SUMMARY OF INVESTMENTS
DECEMBER 31, 1974

A. Certain stock options on treasury shares of Foodex Systems Limited and Ontario Trust Company are outstanding, including options on 192,458 shares of Ontario Trust at $5.00 per share held by the Company, exercisable in part in 1975 and in part to 1978. Had these options been exercised at December 31, 1974 the Company's percentage of shares controlled at that date would have been 57.8% and 58.9% respectively.

B. The quoted market values shown do not necessarily represent the value of entire blocks of investment holdings which may be more or less than the value indicated by market quotations. In the opinion of Management, there has been no permanent impairment in the value of any of the Company's investments and the aggregate value thereof is not less than the aggregate amount at which such investments are carried.

The shares of Bakham Holdings Ltd. are not traded on any stock exchange and for computation purposes the carrying value of this investment has been included in lieu of market value.

C. The shares of the unconsolidated subsidiaries and associated companies may not be sold publicly without the prior consent of certain regulatory authorities. In addition, the shares of NSI Marketing Limited are held in escrow.

D. FOODEX SYSTEMS LIMITED

Foodex is an operating and holding company which is primarily engaged in the restaurant business. A 62% owned subsidiary owns and operates racetracks in the United States.

	1974	1973
Hambro's proportion of net assets (including share of $7,172,000 goodwill in Foodex's accounts) (1974-58.9%; 1973-58.0%)	$11,236,000	$ 9,926,000
Adjustment to carrying value, attributed to additional goodwill and other intangible assets not requiring amortization	5,946,000	6,006,000
Carrying value at December 31	$17,182,000	$15,932,000
Revenue and net income for the year ended December 31:		
Revenue	$55,918,000	$51,390,000
Net income before minority interest	$ 2,048,000	$ 2,352,000
Minority interest in income of subsidiaries	485,000	546,000
Net income for the year	$ 1,563,000	$ 1,806,000
Hambro's share of net income included in consolidated earnings for the year ended December 31	$ 916,000	$ 1,062,000

E. ONTARIO TRUST COMPANY—

Ontario Trust is a trust company offering full trust services including the accepting of demand and term deposits and the investing of deposited funds in securities and mortgage loans.

(ii) a subsidiary of Foodex was charged, along with others, with conspiracy to defraud the Government of Canada between January 1, 1969 and March 31, 1973 of an undetermined amount in excess of $862,000 relating to tender submissions on a dredging contract. The subsidiary was engaged in the dredging and marine construction businesses during part of the aforementioned period having disposed of such businesses in December 1971. Management of Foodex and of the subsidiary have no knowledge of the evidence supporting the charge or of any wrong-doing by the subsidiary in respect of the specified, or any other, tender submissions on projects.

The ultimate resolution of the above matters cannot be determined at present and no provision has been made in the consolidated financial statements of Foodex for such liabilities, if any, as may arise therefrom.

E. ONTARIO TRUST COMPANY—

Ontario Trust is a trust company offering full trust services including the accepting of demand and term deposits and the investing of deposited funds in securities and mortgage loans.

	1974	1973
Hambro's proportion of net assets (53.8%)	$ 5,881,000	$ 5,645,000
Adjustment to carrying value attributed to goodwill which does not require amortization	3,626,000	3,626,000
Carrying value at December 31	$ 9,507,000	$ 9,271,000
Total income and net income for the year ended December 31:		
Interest and other income	$18,668,000	$13,852,000
Net income for the year	$ 513,000	$ 747,000
Hambro's share of net income included in consolidated earnings for the year ended December 31	$ 277,000	$ 395,000

F. PEEL-ELDER LIMITED (See note 2(a) to consolidated financial statements)—

Peel-Elder was a major diversified real estate company engaged primarily in land development, leasing and management and in new residential, industrial and commercial construction. Effective December 5, 1974, Peel-Elder and the Company amalgamated and accordingly the assets and liabilities and operating results have been consolidated in the accompanying financial statements for the year ended December 31, 1974.

For purposes of comparison of the accompanying consolidated financial statements for 1974 with the consolidated statements for 1973, in which the investment in Peel-Elder was carried on the equity basis of accounting, the following information as to the Company's interest in Peel-Elder for the year ended December 31, 1973 is presented:

	1973
Hambro's proportion of net assets (49.6%)	$13,151,000
Adjustment to carrying value, attributed to assets not requiring immediate amortization	5,957,000
Carrying value at December 31, 1973	$19,108,000
Revenue and net income for the year ended December 31, 1973:	
Revenue	$21,605,000
Net income for the year	$ 2,483,000
Hambro's share of net income included in consolidated earnings for the year ended December 31, 1973	$ 1,162,000

G. Bakham Holdings Ltd.—

Bakham Holdings Ltd. is a holding company which owns approximately 97% of the shares of The Winnipeg Supply & Fuel Company, Limited which is principally involved in the sale and distribution of concrete and fuel oil.

The Company owns 55% of the equity shares and 50% of the voting shares of Bakham Holdings Ltd.

	1974	1973
Hambro's proportion of net assets (55%)	$ 1,940,000	$ 1,848,000
Excess of share of net assets over carrying value which does not require immediate amortization	(685,000)	(685,000)
Carrying value at December 31	$ 1,255,000	$ 1,163,000
Total sales and net income for the year ended December 31:		
Sales	$11,146,000	$11,410,000
Net income for the year	$ 168,000	$ 1,034,000
Hambro's share of net income included in consolidated earnings for the year ended December 31	$ 92,000	$ 569,000

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HAMBRO CANADA LIMITED
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED SUMMARY OF INVESTMENTS
DECEMBER 31, 1974

A. Certain stock options on treasury shares of Foodex Systems Limited and Ontario Trust Company are outstanding, including options on 192,458 shares of Ontario Trust at $5.00 per share held by the Company, exercisable in part in 1975 and in part to 1978. Had these options been exercised at December 31, 1974 the Company's percentage of shares controlled at that date would have been 57.8% and 58.9% respectively.

B. The quoted market values shown do not necessarily represent the value of entire blocks of investment holdings which may be more or less than the value indicated by market quotations. In the opinion of Management, there has been no long-term impairment in the value of any of the Company's investments and the aggregate value thereof is not less than the aggregate amount at which such investments are carried.

The shares of Bakham Holdings Ltd. are not traded on any stock exchange and for computation purposes the carrying value of this investment has been included in lieu of market value.

C. The shares of the unconsolidated subsidiaries and associated companies may not be sold publicly without the prior consent of certain regulatory authorities. In addition, the shares of NSI Marketing Limited are held in escrow.

D. FOODEX SYSTEMS LIMITED

Foodex is an operating and holding company which is primarily engaged in the restaurant business. A 62% owned subsidiary owns and operates racetracks in the United States.

	1974	1973
Hambro's proportion of net assets (including share of $7,172,000 goodwill in Foodex's accounts) (1974-58.9%; 1973-58.0%)	$11,236,000	$ 9,926,000
Adjustment to carrying value, attributed to additional goodwill and other intangible assets not requiring amortization	5,946,000	6,006,000
Carrying value at December 31	$17,182,000	$15,932,000
Revenue and net income for the year ended December 31:		
Revenue	$55,918,000	$51,390,000
Net income before minority interest	$ 2,048,000	$ 2,352,000
Minority interest in income of subsidiaries	485,000	546,000
Net income for the year	$ 1,563,000	$ 1,806,000
Hambro's share of net income included in consolidated earnings for the year ended December 31	$ 916,000	$ 1,062,000

Subsequent to December 31, 1974:

(i) an action was brought against Foodex relating to certain trademarks in which, among other things, damages of $10,000,000 are claimed. Foodex has been informed by trial counsel that they have not had an opportunity to study the matter and cannot express an opinion but based solely on their discussions with other counsel for Foodex it would appear that Foodex has meritorious defences to this action. In the opinion of Foodex management, the claims should not result in any material damages to Foodex or interference with its business.

HAMBRO CANADA LIMITED

INTERIM REPORT

FOR THE 6 MONTHS ENDED JUNE 30, 1974

TO THE SHAREHOLDERS:

Satisfactory earnings were recorded by our major investments during the first six months but these were more than offset by the effect of continued high interest rates and the unsatisfactory condition of North American equity markets on the consolidated statement of earnings.

The main thrust of FOODEX Systems Limited (58.7% owned by HMC)—the PONDEROSA Steak House Division—had substantial gains in sales and earnings. Profits from Canadian operations, after excluding the results of discontinued operations, were up 70.4% over those for the corresponding period in 1973, and overall earnings were $774,898 or 17.4¢ per share compared to $681,538 or 16.0¢ per share for the corresponding period in 1973 after giving effect to the above and to the exclusion of an extraordinary gain of $26,000. Earnings from Gibraltar Pari-Mutuel Inc., were $112,000 lower than for the comparable period in 1973 due mainly to the United States "energy crisis" which affected race track attendance and the fact that Gibraltar's 1973 results included non-recurring revenue from the sale of land. 55 PONDEROSA Steak Houses are now open and 20 are either under or about to go under construction. The target of 75 units in operation by year end is expected to be met.

High interest costs and abnormal inflation adversely affected the earnings of the trust company industry. As a result, while the assets of Ontario Trust Company (53.8% owned by HMC) increased by approximately $43 million from June 30, 1973, earnings were down from $425,854 or $0.28 per share for the corresponding period in 1973 to $349,905 or $0.23 per share. Ontario Trust continues to follow a policy of maintaining a strong liquid position.

Net profit of Peel-Elder Limited was $1,554,000 or $0.47 per share compared to $687,000 or $0.21 per share for the same period in 1973. High interest costs and lack of available mortgage funds have caused a slow-down in sales of housing units. Whether this trend will continue will depend on general economic conditions. Peel-Elder remains active in all areas of construction.

On June 20, 1974 HMC made an offer to purchase all shares of Peel-Elder not then owned by it at a price of $13.00 Canadian or $13.25 U.S. at the option of the seller. As a result HMC now owns 3,182,478 shares of Peel-Elder or 94.55% of the outstanding capital. As was indicated in the offer document, dependent on the degree of success of the offer, market conditions, the prospects of making an agreement suitable to Peel-Elder and HMC and upon tax and other business considerations, HMC would consider integrating the operations of Peel-Elder with those of HMC by amalgamation or other merger of interest. It is contemplated that the operations of HMC and Peel-Elder will be amalgamated or merged in the early part of October.

Notwithstanding the disappointing first half results we remain confident in the soundness of our asset base and organization and therefore in the future.

On behalf of the Board,

Toronto, Canada.
August 23, 1974.

E. R. E. CARTER,
President and Chief Executive Officer

HAMBRO CANADA LIMITED
(formerly Hambro Canada (1972) Limited)
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE SIX MONTHS ENDED JUNE 30, 1974

(with comparative figures for the six months ended June 30, 1973)

	Six months ended June 30, 1974 (unaudited)	Six months ended June 30, 1973 (unaudited)
Income:		
Equity in earnings of—		
Unconsolidated subsidiaries	$ 637,000	$ 673,000
Other associated companies	790,000	311,000
Net gain on investment portfolio changes		65,000
Dividends and interest	384,000	347,000
Profit (loss) on security trading less provision to reduce carrying value of trading securities (June 30, 1974—$925,000)	(408,000)	329,000
Other income	198,000	94,000
Earnings before the undernoted	1,601,000	1,819,000
General and administrative expenses	429,000	289,000
Interest	1,838,000	1,124,000
Minority interest	140,000	74,000
	2,407,000	1,487,000
Earnings (loss) before income taxes and extraordinary item	(806,000)	332,000
Income Taxes (provision) recovery		
Current	(328,000)	73,000
Deferred		108,000
	(328,000)	181,000
Earnings (loss) before extraordinary item	(1,134,000)	513,000
Reduction of income taxes of subsidiaries resulting from carry-forward of prior years' losses	124,000	
Earnings (loss) for the period	$(1,010,000)	$ 513,000
Earnings (loss) per share:		
Earnings (loss) before extraordinary item	$ (0.16)	$ 0.07
Earnings (loss) for the period	$ (0.15)	$ 0.07
Based on the equivalent weighted average of the number of shares outstanding throughout the period	6,904,000	7,236,000

NOTE:

Trading securities are carried in the accounts at the lower of average cost and market. As of June 30, 1973 only, aggregate cost of trading securities was $1,454,000 higher than aggregate quoted market values. However, for purposes of determining the lower of cost and market on an aggregate basis, quoted market values at August 10, 1973 have been used. Such aggregate market values were $1,206,000 in excess of aggregate market values at June 30, 1973.

HAMBRO CANADA LIMITED
(formerly Hambro Canada (1972) Limited)
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE SIX MONTHS ENDED JUNE 30, 1974

(*with comparative figures for the six months ended June 30, 1973*)

	1974 (unaudited)	1973 (unaudited)
Source of funds:		
Proceeds on sale of		
—trading securities	$ 5,615,000	$ 1,969,000
—investment securities	212,000	560,000
	5,827,000	2,529,000
Increase (decrease) in bank demand loans	(2,520,000)	5,070,000
Proceeds on sale of assets and investment in associated company	—	7,095,000
Dividends, interest and other income receipts	552,000	374,000
Sale of shares of consolidated subsidiaries under employee share purchase plans	—	597,000
Total consideration attributed to increase in capital	—	1,080,000
	$ 3,859,000	$16,745,000
Use of funds:		
General operating expenses including income taxes	$ 2,611,000	$ 1,487,000
Add credits (deduct charges) not requiring an outlay of funds—		
Depreciation	(7,000)	(4,000)
Minority interest net of dividends paid	(73,000)	(74,000)
	2,531,000	1,409,000
Acquisitions:		
Foodex Systems Limited	304,000	
Tokar Limited	260,000	778,000
Other investment securities	88,000	6,024,000
Trading securities	628,000	4,764,000
	1,280,000	11,566,000
Increase in cash and bank deposit receipts	240,000	747,000
Increase in amount due under employee share option plans		1,497,000
Reduction (increase) in accounts payable and accrued	(517,000)	2,095,000
Increase in mortgages, loans and other receivables	303,000	(160,000)
Other (net)	22,000	(409,000)
	48,000	3,770,000
	$ 3,859,000	$16,745,000

NOTE:
Certain 1973 comparative figures have been reclassified to conform with the 1974 presentation.